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Message Text

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SUBJECT: COFFEE PRICES

1. FOLLOWING ARE HIGHLIGHTS OF ARTICLE ENTITLED "COFFEE PRICE STABILITY NEAR" BY H.J. MAIDENBERG APPEARING IN COMMODITIES SECTION OF N.Y. TIMES JULY 31.

BEGIN TEXT: COFFEE FUTURES PRICES FELL LAST WEEK TO THEIR LOWEST LEVEL IN THREE YEARS, BUT THERE WERE NO CHEERS FROM CONSUMER GROUPS OR TRADERS ON THE NEW YORK COFFEE AND SUGAR EXCHANGE.

BASED ON THE SPOT SEPTEMBER COFFEE DELIVERY, GREEN'S, OR UNROASTED BEAN FUTURES DROPPED TO A THREE-YEAR LOW OF DOLS. 1.066 A POUND LAST TUESDAY BEFORE BARGAIN HUNTERS MOVED IN AND CHASED CONTRACTS UP TO DOLS. 1.244 BY THE CLOSE ON FRIDAY.....

AS ONE COFFEE BROKER OBSERVED LAST WEEK: "OF COURSE, PRICES WERE EXAGGERATED DURING THE RISE. SOME OF IT WAS CAUSED
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BY PANIC BUYING AND SOME BY SPECULATION. THAT IS ALWAYS THE CASE WHEN A COMMODITY THAT HAS BEEN STABLE IN PRICE YEAR AFTER YEAR SUDDENLY BECOMES RELATIVELY EXPENSIVE.

"BUT EVERYONE IN THE COFFEE TRADE KNEW THE PRICE RISE WAS A DISASTER BECAUSE IT WOULD SLASH CONSUMPTION AND STIMULATE PRODUCTION. AND THAT IS JUST WHAT HAS HAPPENED SINCE

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JULY 1975."
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THE ABSENCE OF CHEERING ON THE NEW YORK COFFEE AND SUGAR EXCHANGE CAN BE EXPLAINED BY THE STEADY DECLINE IN TRADING VOLUME IN RECENT MONTHS. TODAY THE LARGEST OPEN INTEREST OF ANY COFFEE CONTRACT IS THE 1,000 LOTS IN THE SPOT SEPTEMBER DELIVERY. THE OPEN INTEREST IS, IN EFFECT, THE NUMBER OF AVAILABLE CONTRACTS FOR TRADING. BY COMPARISON, OPEN INTEREST DURING THE PERIOD OF SOARING PRICES OFTEN EXCEEDED 10,000 LOTS OF 37.500 POUNDS EACH IN MOST DELIVERIES.

THE REASON IS THAT THE ROASTERS AND MERCHANTS NO LONGER WORRY ABOUT SUPPLIES AND HAVE BEEN BUYING BEANS AS NEEDED FOR MONTHS, OFTEN FROM PRODUCERS WHO UNDERCUT EACH OTHER WITH DEALS FOR CHEAP BEANS.

WITH SUPPLIES AMPLE AND GROWING, THE NEED TO HEDGE PURCHASES ON THE FUTURES MARKET LESSENS AMONG THE ROASTERS AND MERCHANTS. AND THE SPECULATORS WHO PROVIDE THE VITAL MARKET LIQUIDITY ARE ALWAYS DISCOURAGED WHEN PRICES APPEAR TO STABILIZE, AS NOW SEEMS TO BE THE CASE WITH COFFEE.

"WE EXPECT," AN IMPORTER SAID THE OTHER DAY, "COFFEE PRICES TO STABILIZE AT TODAY'S LEVELS FOR AT LEAST THE REST OF THE YEAR BECAUSE OF THE FUNDAMENTALS. THE PRO-
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DUCERS WILL THREATEN ALL SORTS OF MOVES TO RAISE PRICES, BUT THE FUNDAMENTALS ARE AGAINST THEM."

ESSENTIALLY, THE FUNDAMENTALS IN THE GREEN COFFEE MARKET ARE FURTHER INCREASES IN SUPPLIES AND, AT BEST, A SLIGHT RISE IN CONSUMPTION.....
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ROUGHLY TWO-THIRDS OF THE OUTPUT IS EXPORTABLE; THE MAJOR PRODUCERS CONSUME THE REST AT HOME. IN FACT, COFFEE TRADERS INTERVIEWED LAST WEEK NOTED THAT REDUCED CONSUMPTION IN THE LEADING PRODUCING COUNTRIES (BECAUSE PRICES ROSE THERE AS WELL) HELPED THE SUPPLY SITUATION.

GREEN COFFEE PRICES WOULD HAVE GONE EVEN HIGHER EXCEPT THAT THE FROST CAME AFTER THE BRAZILIAN CROP WAS HARVESTED IN MAY AND JUNE, AND THE COUNTRY'S ONCE-BOTHERSOME SURPLUS WAS EQUAL TO A FULL YEAR'S OUTPUT AT THE TIME OF THE FROST.....
.....

IN CALCULATING COFFEE PRODUCTION, COMMODITY SPECIALISTS CAUTION THAT STATISTICS IN THE TRADE LEAVE MUCH TO BE DESIRED. AS ONE EXPLAINED:

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"WE KNOW THAT A LOT OF BEANS ARE SMUGGLED OUT OF COLOMBIA, MEXICO AND CENTRAL AMERICA EACH YEAR AT CUT-RATE PRICES TO AVOID TAXES AND ADVERSE FOREIGN-EXCHANGE RATES. THE SAME APPLIES TO SEVERAL AFRICAN COUNTRIES. THE AMOUNTS ARE NOT HUGE BUT THEY DO HAVE AN EFFECT ON PRICES."

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THE FUNDAMENTALS ON THE CONSUMPTION SIDE ARE CLEARER. GLOBAL "DISAPPEARANCE" OR CONSUMPTION THIS SEASON IS EXPECTED TO EQUAL EXPORTS, AT SOME 48 MILLION BAGS, DOWN FROM 61.5 MILLION IN 1975-76.....

BY FAR THE BIGEST IMPORTER IS THE UNITED STATES,.....
THE 20 PERCENT DECLINE IN COFFEE DRINKING IN THIS COUNTRY SINCE 1975 IS FAR GREATER THAN IN MOST OTHER IMPORTING
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COUNTRIES, WHERE PRICES HAVE LONG BEEN HIGHER THAN HERE.

WHAT DISTURBS THE COFFEE TRADE IS THAT THE UNPRECEDENTED RISE IN COFFEE PRICES IN THIS NATION BEFORE 1977 NOT ONLY REDUCED CONSUMPTION AS EXPECTED, BUT ALSO BROUGHT ABOUT OTHER WORRISOME DEVELOPMENTS. ONE IS THE GROWING POPU-LARITY OF BLENDS USING COFFEE BEANS AND ROASTED CEREALS OR CHICKORY.

ANOTHER IS THE SIMILAR POPULARITY OF THE "FLAKED" COFFEES THAT ARE SAID TO PRODUCE MORE CUPS OF THE BREW PER POUND THAN THE GROUND BEANS.....

IT IS TOO EARLY TO TELL HOW MUCH OF AN INROAD THE NEW COFFEES HAVE MADE, BUT THE TRADE IS NOT UNDERESTIMATING THE IMPACT. END TEXT. VANCE

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